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FORM NO. 241
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**REPLACES FORM 36-8
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(47)

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DDI #04411-84/1

1 August 1984

NOTE FOR: Director of Central Intelligence
Deputy Director of Central Intelligence

FROM: Deputy Director for Intelligence

SUBJECT: MFR of Conversation on Soviet Defense Expenditures

Attached is the signed memorandum for the record of the conversation with the Secretary of Defense and the Director, DIA, on Soviet defense expenditures. I have asked Doug MacEachin to work with [] in sorting out the practical implications of what has been agreed in terms of our and DIA's production.

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I believe that the conclusions reached do not curtail analysis that we believe needs to be done but places the emphasis in that work on more useful aspects of the problem. DoD's agreement not to use cost comparisons in the posture statement and other publications also will reduce the all too familiar misuse and oversimplification of our analysis.

If any of you have suggestions or thoughts on next steps, please pass them to Doug MacEachin.

[]
Robert M. Gates

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Attachment:
As stated

cc: D/SOVA
NIO/SP
NIO/USSR
NIO/GPF
NIO/Economics
SA/DCI []
SRP
C/PES

(All Portions of this Memo
are Classified SECRET)

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DDI- 0444/84

25 July 1984

MEMORANDUM FOR THE RECORD

SUBJECT: SecDef/DCI Discussion of Soviet Defense Expenditures,
20 July 1984

1. Prompted by continuing controversy concerning CIA and DIA estimates of Soviet defense expenditures and ongoing evaluation of these efforts by the President's Foreign Intelligence Advisory Board, the Secretary of Defense and the Director of Central Intelligence met on 20 July to discuss the effort and address alternatives for making better use of analytical work on this subject. Other participants included: Deputy Secretary of Defense Taft, Deputy Director of Central Intelligence McMahon, DIA Director LTG Jim Williams, and CIA's Deputy Director for Intelligence Robert Gates. [REDACTED]

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2. The Director began the discussion by recapping the PFIAB's evaluation of the Intelligence Community's work on Soviet defense expenditures and the President's expressed interest in this work principally as a gauge of the burden on the Soviet Union of its defense effort. The Director then asked Mr. Gates to discuss the problem. [REDACTED]

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3. Mr. Gates began by noting that the Community's work on defense expenditures had begun at the request of Secretary McNamara nearly 20 years ago but that in recent years there had been increasing concern about the validity of the work and, perhaps more importantly, concern about the misuse and misunderstanding of much of the analysis done by CIA and DIA both in the Executive Branch and the Congress. It was for this reason that the Director commissioned Ivan Selin and the DCI's Military Economic Advisory Panel nearly two years ago to evaluate CIA's effort and to make recommendations for changes in that effort both to improve the quality of the analysis and to address the way in which the analysis is used. One of the principal conclusions of the Selin Panel was that CIA should be much more aggressive in devising new ways of presenting its analysis in order to prevent misunderstanding and oversimplification of the Soviet defense expenditure assessments. The Panel observed that lengthy caveats and explanations of the limitations and deficiencies of the analysis virtually always were ignored and that other means needed to be found. [REDACTED]

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4. Mr. Gates observed that subsequent to the Selin Panel Report, CIA both on its own and in discussions with DIA has been pursuing the question of a better way to present analysis on the level of burden and meaningful measures of trends in Soviet defense expenditures. This meeting provided an opportunity to offer some new approaches. [REDACTED]

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5. Mr. Gates stated that at this point the Secretary and the Director faced both a short term and a long term problem. The short term problem was the joint CIA-DIA paper requested by the Secretary and the Director as a follow up to DIA's study of last spring on procurement. Mr. Gates noted that CIA's preliminary work shows a rate of growth of perhaps five percent in Soviet military procurement in 1983 but hastened to add that the figure could be higher or lower once firmer data came in. Nevertheless, at this point, for what it was worth, CIA/DIA were headed in the same general direction for 1983 although, as stated above, the analysis is extremely tentative. [REDACTED]

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6. In response to a question from the Secretary, Mr. Gates stated that CIA looks back two years rather than one and that CIA's confidence level increases with the passage of time -- that, in effect, our band of uncertainty is narrower the further back in time we go. Thus, to try and do an assessment of 1983 procurement in his view played to the greatest weaknesses of both CIA's and DIA's efforts. The Secretary and the Director agreed that the two agencies need not further pursue a joint paper. [REDACTED]

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7. Mr. Gates then stated that this tied in to the longer term problem -- the future use of expenditure analysis by the Department of Defense. He stated that DoD's use of dollar comparison figures of US and Soviet defense expenditures to defend the defense budget contributed to oversimplification and misunderstanding of the analysis. A more accurate comparison would focus on what the Soviets actually bought in terms of tanks, planes, ships and so forth rather than fairly arcane and complex formulations of comparative expenditures. He suggested that defense use this more straightforward and demonstrable measure, which would reflect not only current year procurement but also the long term Soviet buildup -- stocks acquired over a long period of time which the US is seeking to offset. In short, Mr. Gates stated his opinion that the Department should stop using comparative expenditures as a measure in the Secretary's posture statement and other documents but rather should rely on actual current year and aggregate equipment numbers (where there is little disagreement between CIA and DIA). [REDACTED]

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8. At the same time, Mr. Gates noted that CIA and DIA would continue work on Soviet defense expenditures, even continuing to do dollar comparison work because it is necessary methodologically in getting at Soviet level of burden. However, such assessments would be an interim step in the analytic process and not an end product. Mr. Gates stressed that in keeping with the priorities and recommendations of the President, the PFIAB

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and the Selin Panel, CIA and DIA should focus their efforts on trying to assess the burden of the Soviet defense effort on the Soviet economy and society as well as measuring relative emphasis among different forces in the Soviet military -- that is, whether trends were toward greater focus on strategic attack, strategic defense, ground forces, etc. Mr. Gates noted, in this regard, that we could, for example, cost the forces forecast in NIE 11-3/8, establish the rate of growth in military spending required to buy such a force and compare that to past years. We could then provide more sophisticated analysis of the implications of such a rate of growth in military spending for other segments of the Soviet economy such as investment in energy, agriculture, heavy industry, consumer and so forth. This would allow us to do more sophisticated, integrated analysis of the choices the Soviet leaders face as well as the cost to other elements of the Soviet economy or tradeoffs represented by projected levels of military effort. [redacted]

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9. General Williams stated his agreement to this approach and again emphasized the greater validity of measuring actual procurement rather than the fairly artificial construct of equivalent dollars the Soviets are spending. [redacted]

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10. The Secretary of Defense and the DCI both agreed to the above approach. Both Secretary Weinberger and Deputy Secretary Taft agreed that OSD would refrain from requesting or using comparative expenditures in budget related presentations and other OSD publications but said that they would focus such efforts on reflecting actual equipment purchases as described above. [redacted]

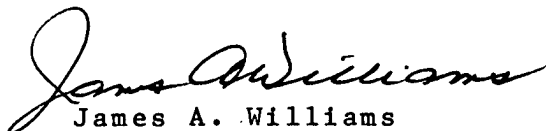
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11. General Williams and Mr. Gates agreed to have their managers meet to work out implementation of this new approach to the defense expenditures issue to insure consistency and meeting the needs of the Executive Branch and the Congress. [redacted]

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12. Secretary Weinberger expressed his appreciation for the discussion and approval of this approach and stressed (as he had throughout the discussion) that he had no intention of impinging on either the independence or integrity of analysis carried out either by CIA or DIA but rather sought an approach to this problem which would eliminate much of the misunderstanding and confusion that had accompanied publication of these assessments in the past and that would reflect the fact that both on actual procurements and in many aspects of expenditures CIA and DIA were not as far apart as often appeared. [redacted]

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James A. Williams

Lieutenant General, U.S. Army
Director, Defense Intelligence Agency



Robert M. Gates

Deputy Director for Intelligence
Central Intelligence Agency

EXECUTIVE SECRETARIAT

ROUTING SLIP

TO:

		ACTION	INFO	DATE	INITIAL
1	DCI		X		
2	DDCI		X		
3	EXDIR		X		
4	D/ICS				
5	DDI	X			
6	DDA				
7	DDO				
8	DDS&T				
9	Chm/NIC				
10	GC				
11	IG				
12	Compt				
13	D/Pers				
14	D/OLL				
15	D/PAO				
16	SA/IA				
17	AO/DCI				
18	C/IPD/OIS				
19	ES		X		
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21					
22					
SUSPENSE		27 July Date			

Remarks

Please keep DCI advised.

D/Executive Secretary
23 July 84

Date

3637 (10-81)

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ER: Answered by DDI 04411-84/1

Executive Registry

84 - 4089

23 July 1984

MEMORANDUM FOR: Deputy Director for Intelligence
FROM: Director of Central Intelligence
SUBJECT: Defense Costing Tasking

1. Leo Cherne called to apprise me that a letter is being prepared for McFarlane's approval and the President's signature to go to me on defense costing. Leo wanted me to know that this will be a tasking outside the scope of the PFIAB oral report to the President with which neither he nor Greenspan agree. As drafted by de Graffenreid it will call for:


i. An investigation of the methodological technique used and available - a relative soundness of what models ought to be used and that kind of thing.

ii. The effect of defense spending on the quality of Soviet life, uneconomic as well as economic factors, what kind of restraints are imposed by the burden of defense spending, etc.

2. Cherne and Greenspan don't want any part of the first task. It will be enormously complicated and not of great value. There is no way PFIAB could handle it. That ground was recently covered by the Selin panel, etc.

3. The second task is exactly what you proposed and Cap and I have agreed to do in the operation of a revised method of measuring the defense burden and with the resources released by that revision.

4. Leo and Greenspan are coming down next week to persuade McFarlane not to accept the proposed tasking. I suggest that you get a memorandum on what we plan to do as agreed at breakfast on Friday, its enhanced value, how it measures up to what the President is looking for, his concern about measuring the burden and its implications. Get in touch with Leo, get a copy of this memorandum to him and to Greenspan. The man who did the work on this at PFIAB is Randy Fort, who is a young man who served as Demech's deputy. Leo suggested that he might come down early so you can talk to him and Fort about what we plan to do with Greenspan being brought in if time can be found around the appointments he has made on the Hill as well as with McFarlane.


William J. Casey

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